

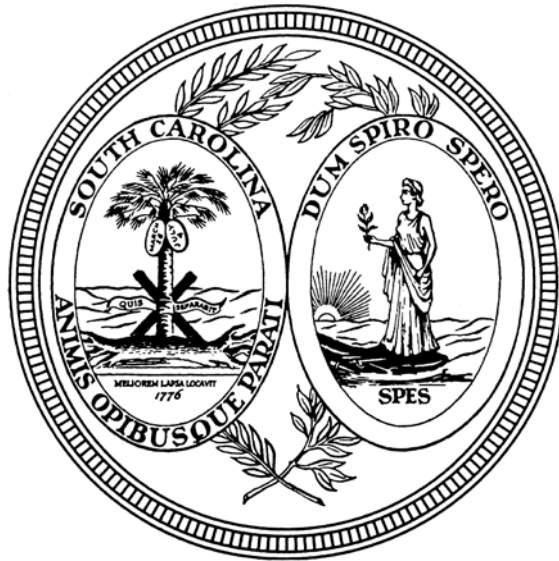


SOUTH CAROLINA GENERAL ASSEMBLY

Legislative Audit Council

March 2009

A REVIEW OF THE NON-EMERGENCY MEDICAL TRANSPORTATION PROGRAM OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES



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of the Department of Health and Human Services***
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Legislative Audit Council

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Synopsis

Members of the General Assembly asked the Legislative Audit Council to conduct a review of the non-emergency medical transportation (NEMT) program managed by the South Carolina Department of Health and Human Services (DHHS).

DHHS operates this program to give Medicaid clients rides to and from medical facilities for non-emergency reasons, such as physician appointments, dialysis, and physical therapy. The objective of the program is to provide better assurance that clients are receiving the services covered by Medicaid.

Until 2007, the department managed the NEMT program by contracting directly with independent transportation providers throughout South Carolina. Under this in-house system, clients called DHHS staff to arrange trips. In 2007, the department entered into contracts with two private brokers to subcontract with independent transportation providers and to arrange trips for clients.

We summarize our findings below.

NEMT In-House System in Operation Until 2007

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- DHHS contracted with local transportation providers without using the competitive procurement methods required by state law.
 - Goals and performance measures were not established for the cost of the program.
 - Goals and performance measures were not established regarding quality of service.
 - Internal controls for deterring fraud and abuse were minimal until 2006.

Procurement of NEMT Broker Services

- Before deciding to purchase the services of transportation brokers, DHHS did not conduct a written analysis of the costs and benefits of its in-house NEMT system versus a broker-based system.
- The department decided to implement the broker-based system statewide without a pilot project and without a phase-in period.
- DHHS did not document the reasons for selecting the companies to which it awarded broker contracts.
- Due to an error in the procurement process, DHHS awarded rate increases to the NEMT transportation brokers after the contract period began. The contracts, however, did not specify the circumstances under which broker rates could be adjusted nor did they indicate the methodology for calculating rate adjustments.
- The department has made payments to the NEMT brokers at the beginning of each month. However, the process established in the contracts require payment at the end of each month. Assuming an interest rate of 3%, this improper timing of payments will cost the federal government and South Carolina just over \$365,000 for a three-year period.

NEMT Broker- Based System Beginning in 2007

- We found no evidence indicating whether an in-house system or a broker-based system is inherently better for minimizing cost and maximizing quality of service. Performance under either system can be affected by factors such as the quality of personnel, training, internal controls, and a process for making ongoing improvements.
- A broker-based transportation system provides incentive to operate efficiently, assuming DHHS has an effective system of purchasing and monitoring the brokers' services.
- Through the procurement process, DHHS has the authority to switch brokers, periodically, if it determines that other brokers could provide higher-quality service and/or lower prices. Over time, this system is designed to give brokers incentive to ensure quality and submit competitive price proposals.

- There is evidence that expenditures during the first year of the broker-based system increased less than they would have if no changes had been made to the in-house system, based on data from an independent actuary. However, efficiency measures implemented under the broker-based system could also have been implemented under an in-house system.
- The department does not have adequate performance measures or goals for the cost of the NEMT program.
- Because DHHS did not calculate quality of service data under its in-house system, we could not determine whether the quality of service has changed under the broker-based system. Monitoring quality of service is important and can be implemented under either management system.
- The department does not report performance data regarding the punctuality and length of trips provided to Medicaid clients.
- DHHS has begun onsite reviews of the work processes of the NEMT brokers and transportation providers and has developed detailed plans to begin onsite audits of the accuracy of performance data. Without onsite audits of the performance data submitted by brokers, there is reduced assurance that the data is accurate. Also, the department has not conducted audits to ensure that, when the brokers deny transportation to individuals, the denials are for reasons authorized by federal law, state law, and the broker contracts.
- Long-term savings can be realized by using a less expensive mode of transportation for clients who need to be moved while lying down, but who do not need an ambulance.
- The Medicaid Transportation Advisory Committee, established by the General Assembly, is not adequately independent of DHHS. Although no DHHS employee is a member of the committee, the committee's meetings have been presided over by DHHS staff and take place in a conference room at DHHS.
- DHHS could enter into improved broker contracts by re-soliciting proposals from vendors for the service period beginning in 2010, when the current contracts may be terminated.

Synopsis

Introduction and Background

Audit Objectives

Members of the General Assembly asked the Legislative Audit Council to review the Medicaid non-emergency medical transportation (NEMT) program managed by the South Carolina Department of Health and Human Services (DHHS).

DHHS operates this program to give Medicaid clients rides to and from medical facilities for non-emergency reasons, such as physician appointments, dialysis, and physical therapy. The objective of the program is to provide better assurance that clients are receiving the services covered by Medicaid. Currently, the department contracts with two private brokers that subcontract with transportation providers and arrange trips for clients.

The objectives of our audit were to determine the:

- Statutory authority and cost of the program.
- Processes used by DHHS to control cost and ensure quality under the in-house management system, prior to 2007.
- Purchasing process used by DHHS to select transportation brokers.
- Processes used by DHHS to control cost and ensure quality under the broker-based system, beginning in 2007.
- Systems used in other states to manage their NEMT programs.

Scope and Methodology

We reviewed the operations of DHHS relevant to our audit objectives. The general period of our review was FY 05-06 through FY 07-08. To complete our review, we used evidence which included the following:

- Data from the department's NEMT, finance, human resources, and legal offices.
- Interviews with staff from DHHS, transportation brokers, transportation providers, and other government agencies.
- State and federal laws and regulations.
- Data from NEMT programs in other states and the Kaiser Family Foundation.

When addressing some of our objectives, we relied on computer-generated data maintained by DHHS. We performed audit tests to confirm the reliability of data when it was significant to our objectives.

We conducted this audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Medicaid

The South Carolina Department of Health and Human Services administers the state's Medicaid program. Medicaid is a health insurance program that pays for medical services needed by poor, elderly, and disabled people. As shown in Table 1.1, this program costs more than \$4 billion annually. In South Carolina, about 70% of the program is funded by the federal government, and about 30% is paid for with state funds.

Table 1.1: Total Medicaid Expenditures by Source of Funds, FY 03-04 – FY 07-08

	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
State	\$550,778,143	\$721,461,888	\$783,003,304	\$821,350,997	\$982,346,832
Other	648,504,827	670,806,808	527,492,200	700,753,342	513,787,907
Federal	3,041,739,543	3,159,193,900	2,830,008,201	3,177,415,807	3,136,230,002
TOTAL	\$4,241,022,513	\$4,551,462,596	\$4,140,503,704	\$4,699,520,146	\$4,632,364,741

Source: DHHS.

Non-Emergency Medical Transportation

States are required by federal law to cover certain services and may offer optional services. Examples of the services funded by the S.C. Medicaid program include:

- Hospital care.
- Physician services.
- Family planning.
- Durable medical equipment.
- Transportation.

If a Medicaid recipient needs medical services but cannot get to those services, federal regulations require that states provide the necessary transportation. A recipient generally travels from a residence or a medical facility to another facility for medical services. This transportation is usually provided by ambulance if it is an emergency. If it is not an emergency, DHHS operates a non-emergency medical transportation (NEMT) program to take recipients to and from the medical services. This transportation can be provided by vehicles such as vans, ambulances, personal cars, or public transportation.

Prior to 2007, DHHS operated this program within the agency and contracted with transportation providers throughout the state to provide the service. In 2007, DHHS contracted with two transportation brokers to coordinate transportation services. The costs for the NEMT program are about 1% of the total Medicaid expenditures and have been increasing as seen in Table 1.2.

The cost of the NEMT program increased from \$35.5 million in FY 03-04 to \$52.5 million in FY 07-08.

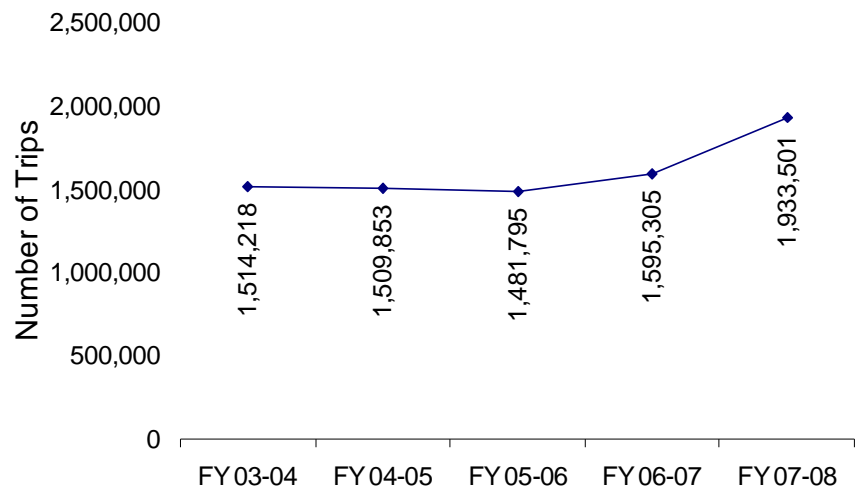
**Table 1.2: NEMT Expenditures
With Administration for
FY 03-04 – FY 07-08**

	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08
State	\$9,719,306	\$11,709,678	\$13,366,141	\$13,993,511	\$15,960,796
Federal	25,798,104	26,901,964	30,132,326	31,662,549	36,586,009
TOTAL	\$35,517,410	\$38,611,642	\$43,498,466	\$45,656,061	\$52,546,805

Source: DHHS.

The number of NEMT trips taken by recipients was relatively stable until the broker-based system was implemented in May 2007. FY 07-08 was the first full fiscal year of the broker-based system.

Graph 1.3: Number of One-Way Trips, FY 03-04 – FY 07-08



Source: DHHS.

NEMT In-House System in Operation Until 2007

Prior to 2007, DHHS had Medicaid non-emergency medical transportation (NEMT) contracts with independent transportation providers throughout South Carolina. Under this system, clients called DHHS staff to arrange trips with transportation providers. During our review of the department's management of its in-house system, we found the following:

- DHHS operated under questionable emergency contracts with transportation providers for almost 2½ years.
- DHHS did not have goals or performance measures regarding the cost of the program.
- DHHS did not adequately measure the quality of service within the program.
- Internal controls for deterring NEMT fraud and abuse were minimal until 2006.

Background

Under the NEMT in-house system, DHHS contracted with independent transportation providers. These providers were paid based on a per-passenger-mile rate. In FY 06-07, the mileage rates that DHHS paid transportation providers ranged from a low of 57¢ per passenger mile in Williamsburg County to a high of \$1.04 per passenger mile in Greenville County.

Arranging Non-Ambulance Transportation

If a client needed non-ambulance transportation, he or she would telephone a local DHHS office. The local DHHS office workers would determine the recipient's Medicaid eligibility and arrange transportation with a local transportation provider. Also, under this system, it was the recipient's responsibility to provide an authorized escort if assistance was needed getting on and off the vehicle. However, providers reported to us that they would often act as an escort for Medicaid recipients who needed assistance.

Ambulance Transportation

Non-emergency ambulance transportation was provided to patients who needed medical monitoring or who could not be transported in a sitting position. For each of these trips a special form (Form 216) was required to document medical necessity. For ambulance-based transportation provided to nursing home Medicaid recipients, the nursing homes were allowed to telephone an ambulance provider directly, without first contacting DHHS.

Coordination of Standing Orders for Transportation

Under the NEMT in-house system, transportation providers reported that they often were able to schedule services so that recipients with standing orders could be transported on the same trip. A standing order is a request issued by DHHS to a transportation provider when a recipient needs a ride on a regular basis, such as dialysis treatment. Transportation providers knew ahead of time that recipients would need a ride on given days at given times.

Non-Competitive Procurement of Transportation Services

State law exempts agencies from using competitive procurement methods when goods or services need to be obtained quickly because of an emergency. DHHS operated under emergency contracts with NEMT providers from January 2005 through April 2007. We found that the avoidance of competitive procurement methods for almost 2½ years by DHHS was questionable.

S.C. Regulation 19-445.2110 states that an emergency procurement may be used in a “situation which creates a threat to public health, welfare, or safety such as may arise by reason of floods, epidemics, riots, equipment failures, fire loss, or other such reason”

Prior to January 2005, DHHS operated its in-house system using competitively-procured contracts with NEMT transportation providers throughout the state. These contracts with transportation providers for the department’s in-house system were set to expire on December 31, 2004.

In November 2004, the department issued the first of two requests for proposals for its new, broker-based management system. These broker-based transportation services, however, did not begin until May 2007. During the almost 2½-year broker procurement process, DHHS did not use a competitive procurement process to obtain transportation providers to operate under the in-house system. Instead, in January 2005, the department obtained transportation providers using an emergency procurement process. These transportation providers continued operating under emergency procurements through April 2007.

The department’s use of emergency procurements for almost 2½ years was questionable. The use of emergency procurements was a result of inadequate planning and not the circumstances listed in state regulation. Finally, the use of emergency procurements may have resulted in increased costs to the agency and lower quality of service to recipients as a result of their non-competitive nature.

Recommendation

1. The Department of Health and Human Services should comply with state law regarding the use of emergency procurements.
-

Performance Goals and Measures for Cost

DHHS did not have adequate goals or performance measures regarding the cost of the NEMT program. The department did not:

- Set goals for or periodically calculate its cost per mile, cost per trip, or cost per recipient.
- Compare the cost of its program with similar programs in other states.
- Conduct formal analysis of the reasons for its rising costs.

Formal goals and periodic measurement of cost provide increased assurance that resources are being used effectively.

Table 2.1 is a limited set of performance measures, calculated by the LAC, regarding the cost of the NEMT program under the DHHS in-house system.

Table 2.1: Cost of the NEMT Program Under the In-House System, FY 01-02 – FY 05-06

	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06
Total NEMT Cost	\$31,057,864	\$32,210,022	\$35,517,410	\$38,611,642	\$43,498,466
Total Recipients	71,585	82,764	67,438	59,811	70,316
Total Trips	1,570,863	1,576,588	1,514,218	1,509,853	1,481,795
Total Miles	30,588,958	30,934,771	30,458,185	30,614,661	32,004,056
COST PER RECIPIENT	\$434	\$389	\$527	\$646	\$619
COST PER TRIP	\$20	\$20	\$23	\$26	\$29
COST PER MILE	\$1.02	\$1.04	\$1.17	\$1.26	\$1.36

Sources: DHHS and LAC analysis.

Performance Goals and Measures for Quality of Service

DHHS did not adequately measure the quality of service under its NEMT in-house system. Without adequate measurement of quality, efforts to maintain and improve quality can be hindered.

We reviewed the contracts that transportation providers were operating under before the implementation of the brokerage system. The contracts stated that waiting times and rides of one hour prior to drop-off or pick-up were considered excessive, unless the medical provider was located more than one hour from the client's home. The contracts also stated that transportation providers should maintain close communication with DHHS to ensure that all requests for transportation were appropriately authorized. However, the department did not periodically calculate or report the extent to which clients were picked up and dropped off on time. Also, the department did not calculate or report the duration of clients' trips.

A system was in place to receive complaints from clients within the NEMT program. Local DHHS eligibility staff and DHHS staff at state headquarters received and addressed complaints. Also, transportation providers addressed complaints and responded with plans for corrective action. However, DHHS did not maintain a formal log of complaints.

Internal Controls for Deterring Fraud and Abuse

The internal controls that DHHS had for deterring NEMT fraud and abuse under its in-house system were minimal until 2006. In FY 06-07, DHHS investigated fraud cases regarding NEMT and found that most of the cases involved ambulance providers. Many of these cases were a result of the inadequate ambulance form policy that the agency operated under until January 2006.

Prior to 2006, the primary methods for discovering fraud within the NEMT program were by receiving complaints and analyzing DHHS cost reports. In 2006, DHHS began implementing a software program that uses data analysis to capture outliers in payments, trips, etc.

Also in 2006, the agency improved controls by changing its policy on the special forms (Form 216) used to document the need for transporting nursing home patients by ambulance. Prior to the change, staff without medical training could fill out the form, and copies of old forms were often reused. Under the revised policy, a doctor or nurse must complete a form for each trip.

Form 216 was also changed to indicate that patients using ambulance transportation solely because they were in a wheelchair would be prohibited. Patients were now required to have a higher level of medical necessity than just being in a wheelchair in order to ride in an ambulance. Wheelchair van transportation rates are not as costly as ambulance transportation.

It is important to note that internal controls for deterring fraud and abuse are likely to produce savings whether they are implemented under an in-house system or a broker-based system.

Conclusion

The department's FY 06-07 accountability report identifies a lack of accountability, inefficiency, escalating costs, poor service, and fraud and abuse by transportation providers as reasons for switching to the brokerage system.

However, because DHHS did not have adequate measures or internal controls for cost, quality of service, or fraud under the NEMT in-house system, its decision in 2004 to change from an in-house management system to a broker system was based on limited data. The department is also restricted in its ability to make comparisons with the new brokerage system.

Procurement of NEMT Broker Services

In this chapter, we recommend changes which could result in improved analysis and greater transparency in the procurement process.

Background

We reviewed the procurement of two private companies to serve as brokers in the Medicaid non-emergency medical transportation program. These brokers are required to subcontract with local Medicaid transportation providers, which give Medicaid clients rides to and from medical facilities for non-emergency reasons. They are also required to operate call centers, where they arrange transportation for Medicaid clients seeking assistance.

The procurement process began in September 2005, when a request for proposals (RFP) was issued by the materials management office (MMO) of the Budget and Control Board, which oversaw the procurement for DHHS.

In November 2006, DHHS awarded one company, Logisticare, Inc., contracts in four of the state's six NEMT regions. Another company, Medical Transportation Management, was awarded contracts in the remaining two regions. Payments to the brokers are based on the number of eligible clients. As a result, brokers have an incentive to minimize the number of trips, eliminating unnecessary ones, and transport patients by the most appropriate type of vehicle.

These contracts commit the department and the brokers to a three-year arrangement, beginning in March 2007, with an option for two one-year extensions. The contracts issued by the department and MMO projected total payments to the brokers of approximately \$140 million for a three-year period and \$233 million for a five-year period.

Our findings are summarized below:

- Before deciding to purchase the services of transportation brokers, DHHS did not conduct a written analysis of the costs and benefits of an in-house NEMT system versus a broker-based system. The department also did not establish quantified goals for the cost savings it sought to achieve.
- The department opted to implement a new, broker-based system statewide, without a pilot project and without a phase-in period, foregoing the opportunity to identify flaws in the new system before full implementation.

- The records for this procurement contained no documentation of the reasons for awarding points to the various companies that submitted proposals. These points were used to determine which companies were awarded contracts. During the procurement process, DHHS changed the weighting of the factors upon which proposals were evaluated without written explanation of the reasons for the changes.
- During the procurement process, DHHS overstated the number of Medicaid-eligible clients on which payments to the brokers were based. As a result, early in the contract period, broker payments were below the amounts indicated in the contract awards. DHHS made subsequent price adjustments to the contracts; however, the contracts did not state how, and under what circumstances, the prices paid to brokers could be changed.
- Since May 2007, DHHS has been paying brokers at the beginning of each month. The process established in the contracts, however, requires payment at the end of each month. Assuming a 3% interest rate, this improper timing of payments will cost the federal government and South Carolina just over \$365,000 for a three-year period, and almost \$630,000 over a five-year period.

Analysis Before Changing to Broker Model

DHHS did not conduct a formal analysis before deciding to change from in-house management of the non-emergency medical transportation program to a broker model. As a result, it is unclear how the department determined the broker model was superior to the in-house management system.

During our review, the agency cited high-cost trends, fraud and abuse, and quality of services, as reasons for issuing the RFP for brokers to manage the Medicaid client transportation needs of the state.

However, before the procurement process for broker services was initiated, the department conducted no formal analysis of its in-house model. For example, the department did not:

- Conduct formal analysis comparing the cost and quality of service in South Carolina's NEMT program with the programs in other states.
- Conduct formal analysis of the extent to which cost could be reduced and quality improved without going to a broker model. For example, according to data published in the RFP, total costs increased 8.1% from FY 03-04 to FY 04-05. During that time ambulance costs increased over 22%. Factoring out the ambulance costs, total costs rose just over 1.5%.
- Establish quantified goals for what the cost and quality of service of the NEMT program should be.

Recommendation

2. The Department of Health and Human Services should conduct formal analysis, addressing cost, quality, and measurable goals, before making significant changes in the non-emergency medical transportation program.

Pilot Program / Phased-In Implementation

Before moving to a statewide broker model of management of the NEMT transportation system in 2007, DHHS did not implement either a pilot program or a phase-in of the new system. Either option would have provided a “test” of the broker model, allowing for an evaluation of the results on a small scale. This would have given DHHS time to make needed adjustments before implementing the change statewide, to reduce the extent of transition problems. Both Virginia and Kentucky implemented pilot programs prior to statewide implementation of the broker-based system.

Following the 2007 installation of the statewide broker system in South Carolina, there were complaints of late pickups, missed appointments, and no pickups. DHHS formed the Medicaid Transportation Advisory Committee and began monitoring complaints.

Pilot programs and phase-in periods will not prevent all transition problems inherent in changing transportation management models. However, such steps can provide data and experience, which, if utilized, are likely to:

- Assist in determining whether to change management models; and
- Reduce transition problems when a new management model is implemented.

Recommendation

3. Before enacting a change in the management model for the transportation program, the Department of Health and Human Services should implement a pilot program or a phase-in approach.

Documentation of Reasons for Contract Awards

In their procurement files, DHHS and the materials management office (MMO) of the Budget and Control Board did not include written comments stating the reasons for awarding points to the various companies that submitted proposals. These points were used to determine which companies were awarded contracts. They also changed the weightings of the evaluation criteria without documenting the reason. Without formal documentation of the reasons for procurement decisions, there is reduced assurance of objectivity.

Basis for Procurement Award

DHHS and the MMO used a “request for proposal” (RFP) purchasing method to award non-emergency medical transportation contracts. This method of purchasing allows a state agency to award contracts based on price as well as evaluation criteria other than price in order to select the contracts “most advantageous” to the state. In September 2005, DHHS and the MMO issued the RFP, which indicated the contract would be awarded based upon the following criteria.

25%	Cost
20%	Quality of response to the scope of work
20%	Coordination of transportation efforts
25%	Corporate background
10%	Approach to staffing

DHHS selected an evaluation panel comprised of four DHHS employees and two employees of other state agencies to evaluate the non-price qualifications of each proposal. The price proposals were scored by MMO with the lowest price receiving the most points.

The S.C. Procurement Code, S.C. Code §11-35-1530 (9), states that when using the RFP method, “the contract file must contain the basis on which the award is made and must be sufficient to satisfy external audit.”

Evaluator Scoring

During our review of the procurement records, we reviewed the score sheets of each evaluator. We found each contained numerical scores but no documentation supporting why the scores were awarded. We were unable to determine why one vendor's technical proposal was scored higher or lower than that of another.

MMO was cited in a previous LAC audit, issued in January 2005, for lack of documentation supporting the basis of evaluation of criteria for contract award. However, MMO has furnished us an intra-agency e-mail, written on October 27, 2006, which requires its procurement officers to ensure that the basis of award is documented in the procurement file. MMO requires evaluators to complete a form with a brief written explanation of the reasons for their scoring decisions.

Change in the Weighting of Evaluation Criteria

During the procurement process, DHHS and the MMO issued an RFP amendment in order to change the weighting of two of the proposal evaluation criteria, without documenting the reason. The "quality of response to the scope of work," initially weighted at 15% was changed to 20% and, "coordination of transportation efforts," initially weighted at 25%, was changed to 20%. The change in these weightings did not affect the award of the contract. However, when the reasons for weighting changes are not adequately explained, the objectivity of the process may be questioned.

Recommendations

4. The Department of Health and Human Services should comply with S.C. Code §11-35-1530 (9), which requires documentation of the basis upon which state contracts are awarded when using the request for proposal purchasing method.
5. The Department of Health and Human Services and the materials management office should fully explain and document all changes to the weighting of proposal evaluation criteria during the procurement process when using the request for proposal method.

Increase in Rates Paid to Brokers

In July 2007, three months after broker payments began for NEMT services, DHHS became aware of a significant data error it made during the procurement process, which reduced broker payments. As a result, DHHS and MMO reached an agreement with the brokers to increase their rates.

However, the broker contracts do not state the circumstances under which rate adjustments should be made, nor do they indicate how such adjustments should be calculated.

During our review, DHHS calculated broker rate adjustments without a formal, written methodology. There is also no written agreement between the department and the brokers indicating whether total payments after the adjustments will be equal to the payments projected when the contracts were originally awarded. If further adjustments are necessary, there is less assurance that they will be conducted consistently.

Incorrect Medicaid-Eligible Data

In September 2005, DHHS and the MMO of the Budget and Control Board issued a request for proposals from organizations seeking contracts to provide broker services to the NEMT program. This request for proposals provided historical information to potential brokers, including the historical cost of the program, the number of clients transported, the number of paid claims, and the number of miles driven. The RFP also included the *projected* monthly number of Medicaid clients each year for a five-year period. Each organization was asked to submit a proposal that included payment rates.

In November 2006, DHHS and MMO awarded two companies a total of six regional contracts, in which the state agreed to pay the brokers specific dollar amounts once a month for each Medicaid client. It could reasonably be expected that broker payments would vary from month-to-month based on fluctuations in the number of Medicaid clients. In its intent to award document, the MMO included projections of the total annual payments for each region over a five-year contract period.

In July 2007, DHHS learned that the RFP contained an error in the data that was given to the brokers to assist in developing their rate proposals. The number of Medicaid-eligible clients that should have been used for payment purposes was 30% less than the number projected in the request for proposals. The agency reports that it counts Medicaid-eligible clients in a number of ways but did not use the appropriate number in the RFP. As a result, the two brokers who had been awarded contracts were receiving about 30% less in monthly revenues than had been projected by DHHS and MMO during the procurement process.

Rate Adjustment

In October 2007, after learning in July of the inaccurate data communicated by the state during the procurement process, DHHS and the MMO reached an agreement with the brokers to increase the rates of payment. This adjustment was made retroactive to the beginning of the contract payments in May 2007, and an additional adjustment was made in March 2008. Following these adjustments, total monthly payment amounts in the first year of the contract approximated the amounts projected by DHHS when the contracts were awarded in November 2006.

Table 3.1 summarizes the original projected monthly payments and the actual monthly payments from May 2007 through December 2007.

**Table 3.1: DHHS Payments
to NEMT Brokers,
May 2007 – December 2007**

MONTHS	ORIGINAL PROJECTED MONTHLY PAYMENTS FROM INTENT TO AWARD	ACTUAL ADJUSTED MONTHLY PAYMENTS
May	\$ 3,848,062	\$ 3,722,536
June	3,848,062	3,698,402
July	3,848,062	3,627,659
August	3,848,062	3,653,233
September	3,848,062	3,690,482
October	3,848,062	3,710,248
November	3,848,062	3,703,664
December	3,848,062	3,589,995
TOTALS	\$ 30,784,499	\$ 29,396,219

Source: DHHS.

As shown in Table 3.1, the payment amount originally projected by DHHS for this period was \$30.7 million. Actual adjusted payments to the brokers were \$29.4 million. These adjustments were not announced to the public, although the rate information can be requested by the public under authority of the Freedom of Information Act. Making the adjustments without public notification led to suspicion and controversy about the decision.

Adequacy of the Broker Contracts

We found that the broker contracts do not state the circumstances under which rate adjustments should be made, nor do they indicate how such adjustments should be calculated. The department and MMO, therefore, agreed to increase broker rates based on their interpretation of the contracts.

We found no evidence that these rate adjustments were not made in good faith. However, it is not possible to determine whether the adjusted rates equal the rates that would have resulted from the original procurement process, had the data errors not been made. For that reason and others, we recommend later in this report that DHHS and MMO initiate a new procurement process for the service period beginning in 2010, when the current contracts may be terminated (see p. 32).

Contract Interpretations

The broker contracts contain language regarding reimbursement that can lead to at least two interpretations.

An interpretation supporting the decision by DHHS to increase brokers' rates can be based on the intent to award document, issued by the MMO in November 2006. This document included specific award amounts based on proposals from the brokers.

An alternative interpretation can be made that no adjustment is required, for the following reasons:

- The brokers agreed to provide services at fixed monthly rates per Medicaid client.
- "Offerors are expected to examine the [RFP] thoroughly and should request an explanation of any ambiguities, discrepancies, errors, omissions, or conflicting statements in the [RFP]. Failure to do so will be at the Offeror's risk. Offeror assumes responsibility for any patent ambiguity in the [RFP] that the Offeror does not bring to the State's attention."

The RFP places responsibility for detecting mistakes in the RFP on organizations seeking the state's non-emergency medical transportation broker business. However, unlike the internal inconsistencies, ambiguities, and omissions that can occur in an RFP, the mistake in this case was an approximate 30% overstatement of the Medicaid-client population upon which payments would be based. In our judgment, it would have been difficult for a prospective broker to detect this type of mistake. In addition, by significantly overstating the number of Medicaid clients, it is likely that DHHS and MMO ensured rates per client that were artificially low.

Conclusion

If DHHS and MMO had used the correct Medicaid enrollment data in the procurement process it is likely the brokers would have bid higher rates per Medicaid client. In making broker rate adjustments in 2007 and 2008, DHHS attempted to set the rates where they would have been if the data error had not occurred. However, it is difficult to know with precision whether the new rates and monthly payments are equal to those the original procurement process would have produced if the correct data had been used during the procurement process. Including language in the contracts regarding when and how rate adjustments should be made would have provided transparency.

Recommendations

6. The Department of Health and Human Services should establish internal controls to reduce the likelihood of data errors in its procurement processes.
7. The Department of Health and Human Services and the materials management office of the Budget and Control Board should ensure that future Medicaid non-emergency medical transportation contracts state the circumstances under which rate adjustments should be made and the method by which such adjustments should be calculated.
8. The Department of Health and Human Services and the materials management office of the Budget and Control Board should ensure that all rate adjustments and the reasons for the adjustments are made public for rate changes regarding contracts with non-emergency medical transportation brokers.

Early Payments to Brokers

Under the non-emergency medical transportation contracts, which became effective in March 2007 with payments beginning in May, DHHS has been paying the brokers an average of \$3.9 million each month. However, the department has been making payments to the brokers earlier than is required in the contracts. Conservatively estimated, these early payments will cost the federal government and South Carolina forgone interest of more than \$365,000 over a three-year period and almost \$630,000 over a five-year period.

The contracts require:

- “The Broker shall be reimbursed a monthly capitation rate for each Medicaid beneficiary residing within the NE[M]T region.”
- “DHHS will produce a report at the end of the current month that contains the total number of beneficiaries eligible for that month. The monthly NE[M]T Beneficiary Extract Summary Report is generally produced two (2) days before the end of every month. This extract contains the information used by DHHS to produce the monthly capitation payment for the month.”

Based on normal processing times, the brokers would be paid for each month of service to DHHS approximately one week after the month ended.

DHHS, however, has not followed the payment timing established in the contracts. They have been paying the brokers generally within the first full week of the month. The average payment is about 30 days early. Subsequently the agency makes adjustment payments to account for changes in eligibility throughout the month. The payments are made with approximately 70% federal funds and 30% state funds.

We calculated the interest forgone by the federal government and South Carolina state government, assuming the payment of \$3.9 million to non-emergency medical transportation brokers 30 days early each month, using a conservative 3% interest rate. The interest rate we used was based on the federal funds rate established by the Federal Reserve Bank, which was 5.25% at the beginning of the contract and was 1.5% as of October 2008.

Recommendation

9. The Department of Health and Human Services should adhere to the timing specified in its contracts with Medicaid non-emergency medical transportation brokers for monthly payments to the brokers.

NEMT Broker-Based System Beginning in 2007

DHHS has been using a broker-based system to operate its non-emergency medical transportation (NEMT) program since 2007. This system was in its first year of operation during our review. Our findings are summarized below:

- We found no evidence indicating whether an in-house system or a broker-based system is inherently better for minimizing cost and maximizing quality of service. Effective management by DHHS is important to the success of either system.
- A broker-based transportation system provides an incentive to operate efficiently, assuming DHHS has an effective system of purchasing and monitoring the brokers' services.
- Through the procurement process, DHHS has the authority to switch brokers, periodically, if it determines that other brokers could provide higher-quality service and/or lower prices. Over time, this system is designed to give brokers incentive to ensure quality and submit competitive price proposals.
- There is evidence that DHHS expenditures during the first year of the broker-based system increased less than they would have if no changes had been made to the in-house program, according to calculations by an independent actuary. However, efficiency measures implemented under the broker-based system could also have been implemented under an in-house system.
- The department does not have adequate performance measures or goals regarding cost.
- Because DHHS did not calculate quality of service data under its in-house system, we could not determine whether the quality of service has changed under the broker-based system. Monitoring quality of service is important and can be implemented under either management system.
- The department does not report performance data regarding the punctuality and length of trips provided to Medicaid clients.

- DHHS has begun onsite reviews of the work processes of the brokers and transportation providers and has developed plans to begin onsite audits of the accuracy of performance data. The department, however, has not conducted onsite audits to ensure that, when the brokers deny service, it is for reasons authorized by federal law, state law, and the broker contracts.
- Long-term savings can be realized through the use of a less expensive mode of transportation to serve clients who need to be transported lying down, but who do not need an ambulance.
- The Medicaid Transportation Advisory Committee, established by the General Assembly, is not adequately independent of DHHS. Although no DHHS employee is a member of the committee, its meetings have been presided over by DHHS staff and take place in a conference room at DHHS.
- DHHS could enter into improved broker contracts by re-soliciting proposals from brokers for the service period beginning in 2010, when the current contracts may be terminated.

Background

As described earlier in this report, DHHS has contracts with two private brokers to operate the Medicaid non-emergency medical transportation program (NEMT) in six regions across the state. The length of these contracts is three years, ending in 2010, with an option for two one-year extensions. Total DHHS payments to the brokers are projected to be approximately \$140 million for a three-year contract period up to \$233 million for a five-year period.

The brokers are required to subcontract with medical transportation providers, which give Medicaid clients rides to and from medical facilities for non-emergency reasons. The brokers operate call centers, where they arrange transportation for Medicaid clients seeking assistance.

DHHS makes monthly payments to the brokers based on the number of Medicaid clients in South Carolina, independent of whether the clients use the service.

Broker-Based System or In-House System

We found no evidence indicating whether a broker-based management system is inherently better than an in-house system for minimizing cost and maximizing quality of service. Performance under either NEMT system can be affected by factors such as the quality of personnel, training, internal controls, and a process for making ongoing improvements.

A broker-based transportation system provides incentive to operate efficiently, assuming DHHS has an effective system of purchasing and monitoring the brokers' services. Because brokers in South Carolina are paid based on the number of Medicaid clients, independent of the clients' use of NEMT services, savings realized during a contract period can increase broker earnings. The brokers, therefore, have incentive to screen out ineligible clients and trips and to ensure that the trips are conducted in an efficient manner.

DHHS payments to brokers after a contract period begins are independent of broker operating costs. Therefore, an efficiency implemented by a broker during a contract period to increase its earnings will not benefit DHHS during that period. However, higher broker earnings can cause additional organizations to compete for contracts in subsequent contract periods. Increased competition can result in lower prices.

An additional feature of the broker-based system is the short-term nature of the contracts. Through the procurement process, DHHS has the authority to switch brokers, periodically, if it determines that other brokers could provide higher-quality service and/or lower prices. Over time, this system is designed to give brokers incentive to ensure quality and submit competitive price proposals.

It is important to note that efficiency measures can be implemented under either management system. In a limited review of other states, we found that whether a state has an in-house system or a broker-based system may not reliably correlate with cost per Medicaid client (see Table 4.1 on p. 25).

Monitoring quality of service can be implemented under either management system. We found that DHHS did not have adequate performance goals or measures for quality of service under its former in-house system (see p. 8) or its current broker-based system (see p. 28). We also found that the department has not conducted onsite audits of the brokers' performance data under the current system. Department officials have developed detailed plans to conduct such audits (see p. 29).

Comparison With Other States

DHHS has conducted some comparisons of policies and practices between South Carolina and other states. However, it has not periodically compared the performance of South Carolina's program with programs in other states. As a result, we conducted a limited survey of similar programs in other states. We also reviewed audits from other states which addressed issues pertaining to making the transition from an in-house system to a broker system.

Although each state has a unique set of factors affecting its NEMT program (such as government structure, local transportation providers, geography, and population density), making periodic comparisons with other states may provide useful information on how to improve operations in South Carolina.

Cost Comparison

In Table 4.1, we report NEMT expenditure data from Georgia and Virginia, which have broker-based systems. We also included Nebraska as an example of a state with a substantial rural population and an in-house NEMT program. The data available shows that the type of management system may not be a predictor of per-client cost.

In our effort to obtain NEMT cost information, we focused primarily on the Southeast. Although we did not audit this data, we rejected information from some states because it appeared to be unreliable. Due to limitations in the availability of reliable information, we used data from more than one fiscal year.

Without periodically comparing South Carolina's NEMT program with those in other states, it will be difficult for DHHS to assess its NEMT program. A review of other state programs, particularly those programs in nearby states, can provide useful information for improving South Carolina's NEMT program.

Table 4.1: NEMT Expenditures Per Medicaid Client

FY 06-07 EXPENDITURES				
STATE	AMOUNT SPENT	MEDICAID CLIENTS ENROLLED IN FY 04-05*	AMOUNT SPENT PER CLIENT	TYPE OF NEMT SYSTEM
Georgia	\$66,113,959	1,823,800	\$36	Broker
Nebraska	\$11,794,438	261,200	\$45	In-house
Virginia	\$59,211,496	873,200	\$68	Broker
South Carolina	\$45,656,061	996,400	\$46	In-house**

* Client data is for FY 04-05, the most recent year for which comparable client data was available.

** South Carolina operated under a broker-based system during the last two months of FY 06-07.

Sources: Cost data is from state government Medicaid agencies. Client data is from the Kaiser Family Foundation, which takes steps to ensure interstate comparability.

Audit Findings in Other States

We also reviewed audit reports that addressed other states' NEMT programs. Below is a discussion of some of the reports we reviewed and issues addressed by those reports.

Mississippi

The Joint Legislative Committee on Performance Evaluation and Expenditure Revenue (PEER) released a review of Mississippi's NEMT program in January 2008. This report dealt with the effects of the November 2006 action by Mississippi's Division of Medicaid to outsource the Mississippi Non-Emergency Transportation Program to a broker. This report projected that the Mississippi Division of Medicaid's brokered contract created \$1.1 million in cost avoidance during the last eight months of FY 06-07, with a comparable amount of savings to be achieved annually. PEER found that there was no basis for concern that service delivery suffered under the brokered contract. PEER noted that the Mississippi Division of Medicaid did not implement a formal, documented quality assurance process until the contract with the broker had been in place for a full year.

Virginia

The Joint Legislative Audit and Review Commission of the Virginia General Assembly published a review of its Department of Medical Assistance Services in January 2002. Among the program areas reviewed in this report was the non-emergency transportation program. Although this report found that the recently implemented transportation brokerage program was an appropriate model for providing non-emergency transportation, it also found that the contractor responsible for the majority of Virginia's non-emergency transportation "... did not have enough transportation providers, phone lines, or staff, and routine transportation visits were not scheduled prior to the start-up date."

Missouri

The Missouri State Auditor published a review of Missouri's NEMT program in October 2005. This report concluded that costs for NEMT services in Missouri under a new broker contract may have been too high for the following reasons:

- Historically high rates were used to establish the new rate structure.
- The Division of Medical Services had not always ensured that recipients of NEMT receive the lowest cost and most appropriate NEMT services.
- The new contract provisions did not allow adjustment of the capitation rates.

The report also found that the Missouri Department of Social Services division of medical services did not provide oversight of the transportation contractor's operations.

Recommendation

-
10. The Department of Health and Human Services should periodically compare its non-emergency medical transportation program with those in other states.

First Fiscal Year Expenditures for the Broker-Based NEMT System

Based on projections by an independent actuary, there is evidence that the rate of increase in NEMT expenditures has been reduced under the broker-based system. However, measures to reduce the cost of the program could also have been implemented under an in-house system.

FY 07-08 was the first complete fiscal year of the broker-based NEMT system. The department operated the NEMT program under an in-house system during the first ten months of FY 06-07 and a broker-based system during the final two months.

On a cash basis, NEMT expenditures increased from approximately \$45.7 million in FY 06-07 to \$52.5 million in FY 07-08. According to an independent actuary hired by DHHS, if the in-house system had remained in place with no changes in FY 07-08, expenditures may have been approximately \$60.6 million. Using updated Medicaid client data, we adjusted the actuary's FY 07-08 forecast to approximately \$55.7 million, which was about \$3 million greater than the \$52.5 million in expenditures reported for that year. It is important to note that actuarial projections are not precise and are based, in part, on data estimates and assumptions.

Under their contracts with DHHS, the brokers have implemented centralized call-centers for making appointments, careful screening of clients to ensure eligibility, and controls to ensure that the mode of transportation is economical. Each of these measures could have been implemented under an in-house system.

Performance Goals and Measures for Cost

DHHS monitors the cost of the NEMT program. It does not, however, have sufficient performance goals or measures regarding the efficiency of the program. For example, the department does not have goals or measures pertaining to cost per passenger mile, cost per trip, or clients per trip. As a result, it will be more difficult to determine whether the program is efficient and making satisfactory progress.

Recommendation

11. The Department of Health and Human Services should develop and report, at least quarterly, additional performance measures and goals regarding the cost of the non-emergency medical transportation program, including, but not limited to, the following or equivalent objective measures:
 - Cost per passenger mile.
 - Cost per trip.
 - Number of clients per trip.

Performance Goals and Measures for Quality of Service

DHHS is working to improve its process for collecting and reporting quality of service data from the NEMT brokers.

Under the in-house NEMT system, which ended in 2007, DHHS did not have objective performance goals or measures for the quality of service it provided to clients. For example, it did not measure the length of trips or the extent to which trips were on time. The department also did not make objective comparisons of quality of service between regions of the state, transportation providers, or fiscal years. As a result, any perceived changes in quality under the current, broker-based system cannot be confirmed.

Under the broker-based system, the department collects performance data from its two brokers, by region, and issues quarterly “report cards” for each broker. Examples of data listed on the report cards include:

- The number of trips, by type.
- The number of phone calls from clients to the brokers.
- The speed of telephone service when clients call the brokers.
- The number of clients denied trips and the brokers’ reasons for the denials.
- The number of complaints, by type.

The report cards do not include the number and percentage of pick-ups and drop-offs that are on time or the length of the trips. DHHS officials note that they do not have accurate data from the brokers regarding punctuality and do not have a consistent definition of “on time.”

During the procurement process for transportation brokers, DHHS indicated that brokers should ensure clients are picked up and dropped off on time. The department also indicated that trips with multiple passengers should last no longer than one hour. One of the brokers, in its proposal to the department, had a goal stating, “90% of vendors are on time.” The other broker had a goal stating, “90% of riders picked up within 20 minutes of appointment time” and “90% of riders delivered to appointments on time.”

DHHS officials report they are currently working with the brokers to establish an automated data collection system that will produce accurate and valid data. With accurate and valid data, the department will be better able to ensure quality of service for its clients. It will also be better able to compare quality among different regions of the state, transportation providers, and fiscal years.

In addition, the department has contracted with the University of South Carolina to survey NEMT clients to determine the degree to which they are satisfied with service under the broker system. In an October 2007 survey, USC found that 88% of NEMT clients were “very satisfied” or “somewhat satisfied.” About 52% of clients said that services were “somewhat better” or “much better” than services six months prior, in April 2007, the last month of the in-house system. DHHS officials report that USC repeated this survey in March 2009, the results of which were not available for this audit report.

Recommendations

12. The Department of Health and Human Services should report, at least quarterly, additional performance measures and goals regarding the quality of service of the non-emergency medical transportation program, including, but not limited to, the following or equivalent objective measures:
 - The extent to which pick-ups and drop-offs are on time.
 - The number of miles per trip.
 - The number of minutes per trip.
13. The Department of Health and Human Services should report quality of service comparisons between regions of the state, brokers, transportation providers, and fiscal or contract years, at least annually, regarding punctuality and length of trips.

Audits of NEMT Brokers by DHHS

DHHS has begun onsite reviews of the work processes of the NEMT brokers and transportation providers and has developed detailed plans to begin onsite audits of the accuracy of performance data. Without onsite audits of the performance data submitted by brokers, there is reduced assurance that the data is accurate. Also, the department has not conducted audits to ensure that, when the brokers deny transportation to individuals, the denials are for reasons authorized by federal law, state law, and the broker contracts.

Each quarter the brokers send to the department summaries of their performance data, including the number of trips, the speed of service when clients call to make appointments, the number and types of complaints, and the number of individuals denied service. Accompanying the performance data, the brokers send supporting documentation in electronic form, which is reviewed by department staff. However, to date, the department has not conducted onsite audits to ensure the accuracy of the brokers’ performance data. Inaccurate performance data can negatively affect the ability of the department to monitor broker operations.

It is also important that the department ensure through periodic audits that denials of service are for valid reasons, because the broker system is designed so the brokers can increase their earnings by denying service. This system can be effective in giving the brokers incentive to deny service to those who are ineligible according to state law and the broker contracts. However, if unchecked, there could be potential for a broker to deny service to individuals who are eligible for service.

Recommendations

14. The Department of Health and Human Services should periodically conduct onsite audits of the accuracy of the performance data submitted to it by non-emergency transportation brokers.
15. The Department of Health and Human Services should periodically conduct onsite audits of denials of service by non-emergency transportation brokers to ensure that the denials are for reasons authorized by federal law, state law, and the broker contracts.

Use of Stretcher Vans for Patient Transport

Currently, all Medicaid clients receiving non-emergency medical transportation (NEMT) services who must be moved on a stretcher are transported in ambulances in which medical care, monitoring, and treatment are available. DHHS estimates that 50% of Medicaid recipients currently transported in ambulances for NEMT do not need medical care while being transported. Department officials state that roughly \$700,000 could be saved per year if 50% of Medicaid recipients were transported in stretcher vans instead of ambulances.

NEMT transportation providers are regulated by the Office of Regulatory Staff, which is a South Carolina state agency independent of DHHS. Current regulations do not provide for the use of stretcher vans, which, according to the Public Service Commission are defined as:

... a mode of non-emergency transportation which may be provided to an individual who cannot be transported in a taxi or wheelchair van due to convalescence or being non-ambulatory. Stretcher vans are not required or authorized to provide medical monitoring, medical aid, medical care or medical treatment of passengers during their transport.

In 2008, the South Carolina Public Service Commission, acting on the recommendations of the Office of Regulatory Staff, filed proposed regulations for review by the General Assembly that would allow the use of stretcher vans. The General Assembly may reject or adopt this regulation.

The use of stretcher vans will allow for cost savings because they will provide a less expensive alternative to ambulance transportation. DHHS officials state that it is not necessary for all non-ambulatory patients to be transported in an ambulance for non-emergency medical purposes. Other states, including Virginia and Georgia, allow for the use of stretcher vans.

Recommendation

16. The General Assembly should approve proposed regulations authorizing the use of stretcher vans for recipients of non-emergency medical transportation when medically appropriate.
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Medicaid Transportation Advisory Committee

In June 2007, the General Assembly passed Act 172, a joint resolution requiring DHHS to “establish a Medicaid Transportation Advisory Committee composed of Medicaid service providers, local transportation providers, and Medicaid recipients, who require transportation services.” We found that this committee is not adequately independent of DHHS.

The 2007 joint resolution states that the committee:

. . . shall meet at least quarterly to review issues and complaints concerning the Medicaid Transportation Brokerage System and shall make recommendations for the resolution of these issues and complaints. The advisory committee shall issue a report quarterly to the Governor, Senate, and House of Representatives. The Department of Health and Human Services shall provide the staff for the advisory committee. The advisory committee is abolished when the contract for the operation of the Medicaid Transportation Brokerage System expires or is terminated.

DHHS established and appointed members to the Medicaid Transportation Advisory Committee, and the committee has been meeting quarterly.

However, we found that the members of the advisory committee have not selected a chair or any other officers. Although no DHHS employee is a member of the committee, its meetings are presided over by DHHS staff and take place in a conference room at DHHS. As a result, the committee is not adequately independent.

If the Medicaid Transportation Advisory Committee were to operate in a more independent manner, the staff of DHHS would remain an important source of information and analysis for the committee.

Recommendation

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17. The General Assembly should amend Act 172 of 2007 to require that the Medicaid Transportation Advisory Committee elect a chairperson from its membership to preside over its meetings and lead the operations of the committee.

Benefits From Obtaining New Broker Contracts in 2010

DHHS could enter into improved NEMT broker contracts by re-soliciting proposals from brokers for the service period beginning in 2010, when the current contracts may be terminated.

Re-soliciting proposals from brokers would allow for lessons learned under the current contracts (which were not preceded by a pilot project) to be incorporated into the new contracts. For example, establishing new broker contracts could include a procurement process in which:

- The data communicated by DHHS to brokers before they submit their proposals does not contain significant errors.
- The reasons for awarding contracts to the brokers selected are clearly documented, as required by state law.
- The contracts state the circumstances under which rate adjustments may be made as well as the methodology for making rate adjustments.
- The contracts contain expanded broker requirements to report cost and quality of service data, so that performance may be better monitored by the department.

Recommendation

-
18. The Department of Health and Human Services should procure new broker contracts for the non-emergency medical transportation program, which would take effect when the current contracts expire in 2010.

Agency Comments



State of South Carolina
Department of Health and Human Services

Mark Sanford
Governor

March 19, 2009

Emma Forkner
Director

Thomas J. Bardin, Jr., Director
Legislative Audit Council
1331 Elmwood Ave., Suite 315
Columbia, South Carolina 29201

Dear Mr. Bardin:

The South Carolina Department of Health and Human Services (SCDHHS) is submitting these comments for inclusion in the audit report titled *A Review of the Non-Emergency Medical Transportation Program of the South Carolina Department of Health and Human Services*. We appreciate the chance to provide members of the General Assembly as well as the taxpayers of South Carolina with complete information on the performance of the Medicaid Non-Emergency Medical Transportation Program. While we welcome the Legislative Audit Council's (LAC) suggestions for continued improvement, most of the conclusions of its report are unfortunately based on opinion and speculation rather than objective and valid criteria and evidence. SCDHHS stands behind our decision to manage the Medicaid Non-Emergency Medical Transportation Program through a Broker-based system because it has resulted in documented, positive benefits for the South Carolina Medicaid program. SCDHHS will continue to monitor Broker performance, collect detailed data for analysis, and ensure efficient and effective transportation services to Medicaid beneficiaries.

It is regrettable that the LAC did not use all of the evidence we supplied for this report. Therefore, we would like to take this opportunity to include all of the information in order to put the LAC findings in perspective. Our documentation demonstrates that:

- The Broker-based transportation system is providing quality services to beneficiaries in a cost-effective manner;
- SCDHHS has complied with all aspects of the SC Procurement Code;
- A comprehensive, multi-faceted program to monitor Broker services has been established, resulting in program enhancements;
- SCDHHS is collecting extensive performance and financial data for analysis and performance improvement;
- The Medicaid Transportation Advisory Committee is a valuable tool for managing the NEMT program.

My staff and I will be available to answer any questions raised by our comments.

Sincerely,

A handwritten signature in cursive script that reads "Emma Forkner".
Emma Forkner
Director

EF:jp
Enclosures

**South Carolina Department of Health and Human Services
Response to LAC Audit of the Non-Emergency Medical Transportation Program**

Overall Finding

We found no evidence indicating whether an in-house management system or a Broker-based system is inherently superior for minimizing cost or maximizing quality of service.

SCDHHS finds that it has obtained benefits from a Broker-based system for NEMT management that would not have been possible under an in-house system. The LAC reports the findings of an independent actuary that the rate of increase in non-emergency transportation expenditures has been reduced under the Broker-based system. Based on this actuary's projections, actual NEMT expenditures in FY 07-08 of \$52.5 million could have been as much as \$60.6 million if the in-house system had remained in place with no changes. We also agree with the LAC's assertion that "a broker-based transportation system provides incentive to operate efficiently, assuming DHHS has an effective system of purchasing and monitoring the brokers' services."

In addition to the cost savings demonstrated, SCDHHS has also required extensive complaint monitoring and management by the Brokers, and has collected a large volume of performance data in order to maintain accountability and performance improvement. As stated by the LAC, "Under their contracts with SCDHHS, the brokers have implemented centralized call centers for making appointments, careful screening of clients to ensure eligibility, and controls to ensure the mode of transportation is economical."

In FY 07-08, SCDHHS provided a cost benefit analysis, in response to a legislative inquiry, that showed the administrative cost to create a comparable in-house system could have been as much as **\$15,000,000** in the first year alone for additional staffing, communication infrastructure such as toll free lines, route optimization software, and other IT costs.

Finally, SCDHHS has commissioned the University of South Carolina, Institute for Public Service and Policy Research to conduct surveys of Medicaid beneficiaries who had received transportation services provided through the Broker system. In the first survey conducted in October 2007, beneficiaries reported a high rate of satisfaction (88%) with their Medicaid transportation services under the Broker system. Moreover, 52% felt the Broker system was an improvement over the old system, and 34.2% indicated that it was about the same. A follow-up beneficiary survey was conducted this year and reinforces the positive impact of the Broker system. Preliminary findings show that 82% of respondents reported that the NEMT transportation meets their needs (77% "always" and 12% "usually"); 50.4% rated the Broker-based system "the best transportation service possible."

In light of all this information, it is hard to justify the LAC's conclusion in its overall finding.

NEMT In-House System in Operation Until 2007

- *DHHS contracted with local transportation providers without using competitive procurement methods required by state law.*

All SCDHHS actions complied with state procurement laws and were driven by the mandate to provide uninterrupted transportation services to Medicaid beneficiaries.

SCDHHS issued a Request for Proposals (RFP) for NEMT on November 5, 2004, prior to the expiration of the transportation contracts on December 31, 2004. Because a new contract award would not be issued before the expiration of the contracts, SCDHHS issued an emergency procurement with the same providers who were providing transportation services at that time. SCDHHS is required by federal law to provide medical transportation services for Medicaid beneficiaries, and a disruption in these services could not be allowed. The transportation providers included the major Regional Transportation Authorities (RTA) such as the Pee Dee RTA and the Santee-Wateree RTA, as well as the Councils on Aging transportation providers. Each of these providers agreed to extend their *current, competitively procured contracts* under existing rates until a new Broker-based system was in place.

SCDHHS provided sufficient justification for the emergency procurement and followed every aspect of the SC Procurement Code in doing so. Section 11-35-1570, Emergency Procurement, states "Notwithstanding any other provision of this code, the chief procurement officer, the head of a purchasing agency, or a designee of either officer may make or authorize others to make emergency procurements only when there exists an immediate threat to public health, welfare, critical economy and efficiency, or safety under emergency conditions as defined in regulations promulgated by the board; and provided, that such emergency procurements shall be made with as much competition as is practicable under the circumstances. A written determination of the basis for the emergency and for the selection of the particular contractor shall be included in the contract file." (Emphasis added.) Since SCDHHS extended contracts that previously were competitively procured, the requirement to seek as much competition as practicable was met.

Failure to provide transportation to Medicaid beneficiaries could certainly affect the health of these beneficiaries and could have forced beneficiaries to use more costly means of transportation, i.e., emergency transportation, thereby costing the state more funds. Also, the providers agreed to provide transportation services at the rate they were presently receiving under the contracts that had been competitively procured. These providers did not receive any rate increase for continuing to provide transportation services under the emergency procurement. The LAC finding that "the use of emergency procurements may have resulted in increased costs to the agency" is not substantiated. This information was provided to the LAC.

The procurement of a medical transportation system, because of the amount of money involved, the complex nature of the services needed, and the procurement process itself, is always a lengthy process, and two years is not unreasonable. One reason for the length of time needed to develop and award the RFP was that SCDHHS held meetings with the existing medical transportation providers. SCDHHS wanted to ensure that the medical transportation providers had input into the process, since these same providers would be providing the actual services under the Broker-based system.

DHHS began the procurement process prior to the expiration of the competitive provider contracts. However, due to the new solicitation not being awarded prior to the December 31, 2004, expiration date, an emergency procurement was appropriate. Using the emergency procurement in this situation was allowed under the SC Procurement Code and is recognized by MMO as a valid method of procurement. SCDHHS did comply with the state law regarding emergency procurements.

- *Before deciding to switch from an in-house management system to a broker-based system, DHHS did not conduct a written cost / benefit analysis of the two systems.*

While a written analysis was not produced, SCDHHS did base its decision on cost and utilization data and on a clear understanding of the benefits inherent in a Broker transportation system. These include: consolidation and improvement of management and operational functions obtained through a competitive bidding process; improved service coordination through a neutral party; reduction in contractual relationships and oversight and compliance issues (substantially less contracts to monitor); fixed fees; capitated payments that transfer risk to the Broker; and economies of scale related to aggregate purchasing. It is also obvious that SCDHHS, as the Single State Agency for Medicaid administration, is not necessarily an expert when it comes to operating a major transportation system expected to serve more than 800,000 clients who take almost two million trips annually.

The LAC recommends that SCDHHS conduct “formal analysis, addressing cost, quality, and measurable goals, before making significant changes in the non-emergency medical transportation program.” SCDHHS agrees it will not make significant changes to the Brokers’ contract or enter into a new procurement until this formal analysis has been conducted.

- *The department also implemented the broker-based system statewide without a pilot project or phase-in period.*

The LAC has failed to consider the feasibility of and complexities involved in implementing a transportation system as a pilot project. It would be difficult for a vendor to sustain the upfront costs necessary for a pilot or demonstration project; in addition, a contract for even a pilot project would have to be competitively bid. Furthermore, having one transportation system for a county or region, and a different one for the rest of the state could have resulted in much confusion for beneficiaries and increased numbers of complaints and missed trips.

- *DHHS did not document the reasons for selecting the companies to which it awarded Broker contracts.*

The Materials Management Office (MMO) is the purchasing arm of the State, and the buyer is in control of the procurement process. SCDHHS followed the instructions of the buyer at the time the Broker proposals were evaluated. At that time, MMO **did not** require evaluators to complete a form with a brief written explanation of the reasons for their scoring decisions. Instead, MMO instructions stated: “Evaluation members may support their reasoning for discussions and evaluation with appropriate documentation or notes. ... Worksheets or evaluators notes **will not be taken up or become part of the file.**” (Emphasis added)

While the LAC may have recommended in a previous audit of MMO that they require evaluators to document the basis for their scoring, this recommendation was implemented **after** this procurement was evaluated, and no form was provided to evaluators. SCDHHS complied with every aspect of the Procurement Code and MMO’s instructions at the time of the contract award.

Furthermore, there is no requirement in the SC Procurement Code for an evaluator to provide written documentation for his scoring of a vendor’s proposal, as stated by the LAC. The evaluator is required to enter a numerical score for the proposal based on the requirements of the

RFP and in accordance with the weights, if given, of each evaluation criteria. Evaluators are expected to be able to support their scoring decision; however, in so doing, the law does not require evaluators to provide written documentation of their scoring as part of the contract file. DHHS believes that the LAC has misinterpreted the meaning and requirements of SC Code §11-35-1530 (9), and that there was adequate documentation to support the award of the contract.

- *Due to an error in the procurement process, DHHS awarded rate increases to the NEMT Brokers. The contracts, however, did not specify when rates could be adjusted or the methodology for calculating rate adjustments.*

While the Brokers' Per Member Per Month (PMPM) rate may have increased, the number of potential Medicaid eligibles decreased; therefore, the total contract amount bid by the Brokers did not increase. The Brokers signed Change Orders agreeing that the rate adjustment would keep the Brokers within the maximum potential value of the contract as originally bid. This information was provided to the LAC.

Also, page 34 of the contract allows for amendments to provisions of the contract, which would include rates. Specifically, the provision states that, "Amendments to any contract between the agency and the contractor must be reviewed and approved by the Materials Management Office." In addition, the LAC's assertion that the contract has no provision for how rate adjustments should be calculated is wrong. The Broker contracts do in fact require that rates be actuarially sound. The adjusted rates were within the actuarially sound ranges established by the actuaries.

We also explained to the LAC that while the number of Medicaid-eligible clients projected for the cost basis of the contract was overstated, this was not due to any error of calculation or inadequate data controls on the Medicaid eligibility system. There are multiple ways to legitimately count Medicaid beneficiaries: the total number of unduplicated beneficiaries in the year; actual number eligible each month; actual number receiving services each month, etc. Each method will yield different results but each is valid and correct, depending on the need for the count.

- *DHHS has made payments to the NEMT Brokers at the beginning of each month. The broker contracts require payment at the end of each month. Assuming a 3% interest rate, these early payments will cost the federal government and South Carolina about \$365,000 for a three-year period.*

SCDHHS will conduct an evaluation to ensure the Brokers and the transportation providers would not be negatively impacted by changing payment from the first of the month to the end of the month. If the medical transportation providers would be negatively impacted, then SCDHHS will amend the contract to allow for Broker payments at the beginning of each month. The LAC's conclusion in this finding is based on assumptions that are not valid.

NEMT Broker-Based System Beginning in 2007

- *The department does not have adequate performance measures or goals for the cost of the NEMT program.*

SCDHHS already collects monthly detailed data from the Brokers that can be used to develop performance measures for determining program cost and/ or efficiency. This data is reviewed for accuracy and thoroughly discussed at the monthly meetings held with each Broker. (These data were also made available to the LAC for review.) These major performance measures, by region, Broker, month, and year-to-date, include these areas:

- Number of Trips by Type
- Number of Miles Traveled
- Number of Beneficiaries Served
- Call Center Operation details
- Number of / Reason for Denials
- Number and Type of Complaints
- Details of Complaint Resolution

The agency creates a Transportation Broker Report Card by abstracting data from the monthly reports of performance measures. The report cards are sent to the SC Legislature and were provided to the LAC. Regional information in the Report Cards allows for comparison and trending over time. Since the LAC declined to include a copy of the Broker Report Card in its report, we are including an example with our comments so that readers can see for themselves.

Through the Broker system, DHHS knows the cost per client, and DHHS has control over this cost since it is a flat per member per month rate that is computed by actuaries and determined to be actuarially sound. DHHS is also developing requirements for improved encounter data submissions from the Brokers, which will provide more statistical information and other cost measures as envisioned by the LAC. Also, DHHS is working with our actuaries to conduct a detailed analysis of Broker costs.

Also, both transportation Brokers are accredited by an organization known as URAC (Utilization Review Accreditation Commission). URAC is a non-for-profit organization that promotes continuous improvement in the quality and efficiency of health care management through the processes of accreditation, education, and measurement. By virtue of this accreditation both Brokers have developed standards, performance goals, and quality measurement programs.

Finally, a study was completed in March 2009 by one of the Brokers to determine the overall capacity of the South Carolina Transportation Provider Network. The objective was to quantify the network passenger capacity based upon the established vehicle assets to perform service requirements to satisfy the SCDHHS Agreement. The study found that each region had adequate resources to meet the current and projected demand for transportation services, and also identified areas for improvement with respect to the utilization, efficiency and available capacity.

- *Because DHHS did not measure quality of service under its in-house system, we could not assess changes in the quality of service under the broker system.*

SCDHHS commissioned the University of South Carolina, Institute for Public Service and Policy Research, to conduct a survey of Medicaid beneficiaries who had received transportation services provided through the Broker system. The survey, which was first conducted in October 2007, was based on completed interviews with 767 beneficiaries who had received at least one Medicaid trip in the past 30 days. Eighty-eight percent (88%) of beneficiaries surveyed said

they were “very satisfied” (65%) or “somewhat satisfied” (23%) with transportation services. Among those beneficiaries who utilize non-emergency transportation the most (20 or more times per month), about 93% said they were satisfied. Detailed information on complaints and the reasons for dissatisfaction was also collected. In addition, respondents were asked how they felt about their current service compared to that received six months ago (before the Broker system was implemented). Among all respondents, 52% said service is better now than it was prior to the new system’s implementation in May, and 34.2% indicated that it was about the same.

A follow-up beneficiary survey was conducted this year and reinforces the positive impact of the Broker system. Preliminary findings reported to SCDHHS in March show that 82% of respondents reported that the NEMT transportation meets their needs (77% “always” and 12% “usually”); 50.4% rated the Broker-based system “the best transportation service possible.”

The transportation survey as conducted by the USC Institute for Public Service and Policy Research is one of the best indicators of how the Medicaid NEMT service has improved under a Broker system, and has proved to be an excellent program evaluation tool for SCDHHS.

- *The department does not report performance data regarding the punctuality and length of trips provided to Medicaid clients.*

SCDHHS collects data monthly from each Broker on the number of trip pick-ups and deliveries that were on time, with a performance goal of equal or greater than 90% of the time. We review the data with the brokers and are working with them and the local providers to establish an automated data collection effort.

- *DHHS has begun onsite reviews of the work processes of the brokers and transportation providers and has developed plans to begin onsite audits of the accuracy of performance data. The department, however, has not conducted onsite audits to ensure that, when the Brokers deny transportation to individuals, it is for reasons authorized by federal law, state law, and the broker contracts.*

SCDHHS has conducted three on-site reviews of the Broker call centers during the past several months, and a fourth was conducted in February 2009 with the report currently under development. Several individual transportation providers were also reviewed on-site, and three more reviews are scheduled for April 2009. SCDHHS has an 80-page Transportation Broker Review Plan for eight major areas the agency is responsible for reviewing in order to demonstrate contract compliance. Under each of these eight areas there are 339 individual program activity aspects identified for review. These major areas include:

- Trip Reservation Review
- Trip Scheduling and Cancellation Review
- Complaint Process Review
- Member Education and Communication Review
- Non-Emergency Transportation Network Review
- Contracted Transportation Provider Review
- Non-Contract Transportation Provider Review
- Broker Back Office Review

The SCDHHS transportation program review includes a plan to verify the source data of the monthly reports and ensure that it is correctly pulled from the Brokers' data management systems. Also, SCDHHS does review in detail the reasons for each denied trip to ensure the Brokers are complying with all applicable rules and policies. Overall, in FY 07-08, denials accounted *for less than 1% (0.87%)* of all trips.

- *The Medicaid Transportation Advisory Committee, established by the General Assembly, is not adequately independent of DHHS.*

SCDHHS has followed all legislative requirements for establishing the Medicaid Transportation Advisory Committee. This finding implies that the committee is ineffective. On the contrary, the department has found the input of the Medicaid Transportation Advisory Committee to be very valuable, and has made positive changes to the program as a result of their recommendations. The TAC provided valuable assistance on the development of the Broker Report Card, for example. The committee has done exactly what it is supposed to do, even without a chairman. The meetings are facilitated by SCDHHS, not chaired or "presided" over by the agency. The TAC is free to meet independent of SCDHHS at any time.

In addition to the six quarterly meeting held so far, SCDHHS has met monthly with the Brokers, met 35 times with individual transportation providers, attended 46 regional broker meetings, and has held five transportation training sessions. The outcomes of these meetings are discussed with the TAC. Some of the other issues tackled by the Medicaid Transportation Advisory include:

- Development of a Regional Report for comparison and trending;
- Review of the beneficiaries' satisfaction survey conducted by USC;
- Development of recommendations to improve call center response times.

Notwithstanding the LAC's opinion, SCDHHS greatly appreciates the efforts and participation of the Medicaid Transportation Advisory Committee.

- *DHHS could enter into improved broker contracts by re-soliciting proposals from vendors for the service period beginning in 2010.*

SCDHHS believes it would be in the best interest of the State and its Medicaid beneficiaries to exercise at least one of the option years to extend the contract. This would allow SCDHHS time to collect at least three years' worth of performance and statistical data, and to be able to thoroughly review this data and lessons learned. A contract extension would also allow SCDHHS and our actuaries time to conduct the formal cost benefit analysis recommended by the LAC. Careful data analysis and planning will result in the award of a contract(s) that best meets the needs of Medicaid beneficiaries and the Medicaid program.

South Carolina Department of Health and Human Services

Broker Report Card



Transportation Metrics	October 2008 Final	November 2008 Final	December 2008 Final	SFY 2009 Totals
Total trips provided by type of transportation	122,066	101,266	108,698	676,227
• Non-Emergency Ambulatory Sedan/Van Trips	102,431	84,653	90,677	563,875
• Wheelchair Trips	15,126	12,700	14,051	88,606
• Stretcher Trips	1,645	1,468	1,516	9,024
• Individual Transportation Gas Trip	2,578	2,087	2,061	13,193
• Non-Emergency Ambulance/BLS (Broker Sponsored)	0	0	0	0
• Public Transportation Bus Trip	286	358	393	1,529
• Extra Passenger - Not Added To Total Trips	0	0	0	0
Actual number of calls	43,024	31,925	32,618	223,640
• Average phone calls daily	1,593	1,277	1,255	1,432
• Average Answer Speed	01:28	01:08	00:27	00:59
• Average Talk Time	03:27	03:35	03:25	03:25
• Average Time On Hold	00:38	00:44	00:43	00:42
• Average time on hold before abandonment	01:23	01:26	01:36	01:20
• Average number of calls abandoned daily	115	69	37	78
Total number of complaints by type	779	579	749	3,771
• Provider No-Show	223	151	218	1,124
• Timeliness	408	355	371	2,048
• Internal Complaint	55	30	88	245
• Call Center Operator	18	10	18	73
• Driver Behavior	1	3	2	11
• Provider Service Quality	2	2	1	13
• Miscellaneous	67	24	34	210
• Rider Injury / Incident	5	4	17	47
• Complaints as percentage of total trips	0.64%	0.57%	0.69%	0.56%
Total number of denials by type	624	562	555	3,446
• Non-Urgent / Under Days of Notice	234	209	155	1,086
• Non-Covered Service	304	266	282	1,861
• Ineligible For Transport	15	29	23	127
• Unable to Confirm Medical Appointment w/ Provider	6	12	16	40
• Does Not Meet Transportation Protocols	0	0	0	1
• Alternate Forms Of Transportation Available	0	0	0	2
• Not a Medicaid Enrolled Provider	0	0	0	0
• Incomplete Information	6	4	24	51
• Wrong Level Of Service And Ambulance	59	42	55	278
• Beneficiary Has Medicare Part B	0	0	0	0
• Denials as percentage of total trips	0.51%	0.55%	0.51%	0.51%

TRIPS, DENIALS AND COMPLAINTS BY REGION - SOUTH CAROLINA
LOGISTICARE AND MTM
SFY 2008



	July 2007	August 2007	September 2007	October 2007	November 2007	December 2007	January 2008	February 2008	March 2008	April 2008	May 2008	June 2008	Totals
Region 1													
Number of Trips	27,012	29,923	26,708	30,841	27,307	25,355	29,753	29,109	29,453	31,692	31,187	29,724	348,064
Denials	276	318	391	432	356	302	195	232	442	381	171	251	3,747
Complaints	138	127	108	66	56	27	26	33	20	40	37	29	707
Region 2													
Number of Trips	19,190	20,786	18,732	22,244	19,425	18,019	20,340	19,479	19,579	21,010	20,683	18,972	238,459
Denials	183	167	207	315	238	228	209	159	328	228	140	184	2,586
Complaints	150	186	124	89	58	23	30	30	25	31	30	32	808
MTM Totals													
Number of Trips	46,202	50,709	45,440	53,085	46,732	43,374	50,093	48,588	49,032	52,702	51,870	48,696	586,523
Denials	459	485	598	747	594	530	404	391	770	609	311	435	6,333
Complaints	288	313	232	155	114	50	56	63	45	71	67	61	1,515
Region 3													
Number of Trips	23,960	25,551	21,195	24,677	21,881	20,736	24,524	22,044	22,838	23,619	22,601	22,660	276,286
Denials	255	335	345	285	159	147	143	152	148	131	130	113	2,343
Complaints	41	37	37	43	31	34	37	51	66	108	62	72	619
Region 4													
Number of Trips	25,663	27,611	23,561	27,483	24,457	22,178	25,903	24,280	23,595	27,499	22,853	24,120	299,203
Denials	193	338	412	374	190	198	253	230	200	227	192	188	2,995
Complaints	41	18	24	39	31	34	29	43	20	35	24	39	377
Region 5													
Number of Trips	39,253	42,740	36,719	41,929	37,053	34,301	36,694	33,367	34,481	36,709	35,031	34,796	443,073
Denials	200	477	524	435	210	177	233	210	170	214	191	193	3,234
Complaints	29	39	70	110	85	59	60	70	51	84	93	113	863
Region 6													
Number of Trips	26,984	30,465	26,040	29,214	25,574	24,313	27,477	27,095	26,426	28,452	27,708	28,617	328,365
Denials	120	294	326	285	135	116	126	110	118	107	144	120	2,001
Complaints	63	72	119	112	64	57	101	211	136	245	210	289	1,679
Logisticare Totals													
Number of Trips	115,860	126,367	107,515	123,303	108,965	101,528	114,598	106,786	107,340	116,279	108,193	110,193	1,346,927
Denials	768	1,444	1,607	1,379	694	638	755	702	636	679	657	614	10,573
Complaints	174	166	250	304	211	184	227	375	273	472	389	513	3,538
State Totals													
Number of Trips	162,062	177,076	152,965	176,388	155,697	144,902	164,691	155,374	156,372	168,981	160,063	158,889	1,933,450
Denials	1,227	1,929	2,205	2,126	1,288	1,168	1,159	1,093	1,406	1,288	968	1,049	16,906
Complaints	462	479	482	459	325	234	283	438	318	543	456	574	5,053

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March 11, 2009

Thomas J. Bardin, Jr.
Director
South Carolina General Assembly
Legislative Audit Council
1331 Elmwood Ave., Suite 315
Columbia, SC 29201

Dear Mr. Bardin,

Thank you for the opportunity to offer comments on your audit entitled *A Review of the Non-Emergency Medical Transportation Program of the Department of Health and Human Services*. Our comments are as follows:

LAC Recommendation # 5: “The Department of Health and Human Services and the Materials Management Office should fully explain and document all changes to the weighting of proposal evaluation criteria during the procurement process when using the request for proposal method.”

MMO Response: As you acknowledge in your audit report, the change in weightings did not affect the award of the contract. The change to the scoring weights was announced publicly and documented in Amendment 4 to the RFP in response to both a prospective offeror question (documented in Amendment 3) and follow-up question regarding the weighting of these two criteria. The process allows an opportunity for any prospective contractor who disagreed to raise the issue or too protest any amendment to a solicitation. This check and balance is built into the process to provide transparency and ensure objectivity. Even given this opportunity, no prospective contractor presented any concern.

Regarding evaluation criteria used for requests for proposals (RFP), the Consolidated Procurement Code requires, “The request for proposals must state the relative importance of the factors to be considered in evaluating proposals but may not require a numerical weighting for each factor.” [11-35-1530(5)] In this RFP, we not only listed the evaluation criteria in their relative order of importance, we stated their actual relative weights. In the amendment to the RFP, we restated the evaluation criteria in their actual relative weights. We exceeded the

requirements of the Consolidated Procurement Code. Your recommendation is not supported by the statute.

LAC Recommendation # 7: "The Department of Health and Human Services and the Materials Management Office of the Budget and Control Board should ensure that future Medicaid non-emergency medical transportation contracts state the circumstances under which rate adjustments should be made and the method by which such adjustments should be calculated."

MMO Response: As you acknowledge in your report, the rate change criticized in your recommendation resulted in a net savings to the state of \$1.3 million dollars. We believe the rate adjustment in this case was appropriate.

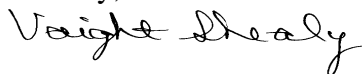
It is difficult to establish contract language to address every possible combination of circumstances regarding rate adjustments. However, through the creation of a new collection of clauses entitled, "The Compendium", released after a two-year project in March 2006 (after the deadline of receipt of proposals in response to this solicitation), MMO authored more descriptive language prescribing the conditions under which changes may be made. Such standard language would appear in any future solicitation.

LAC Recommendation # 8: "The Department of Health and Human Services and the Materials Management Office of the Budget and Control Board should ensure that all rate adjustments and the reasons for the adjustments are made publicly for rate changes regarding contracts for non-emergency medical transportation brokers."

MMO Response: We post summaries of statewide term contracts awarded by the Materials Management Office as well as rate adjustments to our website because every agency utilizes the information. We do not post rate adjustments for contracts for any single state agency such as DHHS to the website because these contracts do not have statewide application. DHHS is welcome to post this information on its website.

Further, we respond extensively to requests for information. For example, in response to Freedom of Information Act requests, during Fiscal Year 2007-08, we provided over 14,500 pages of information. We will continue to operate in accordance with the Freedom of Information Act.

Sincerely,



Voight Shealy
Materials Management Officer

This report was published for a total cost of \$114.90; 105 bound copies were printed at a cost of \$1.09 per unit.